

LIHTC MONTHLY REPORT

A MONTHLY PUBLICATION OFFERING NEWS, OPINION, FEATURES AND COMMENTARY ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

October 2006, Volume XVII, Issue X, Published By Novogradac & Company LLP

Syndicators Suggest Equity Market Begins to Simmer Down

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

The increasingly breakneck pace and sky-high prices that investors in and developers of low-income housing tax credit (LIHTC) properties have witnessed over the past couple of years may have finally peaked, according to a panel of syndicators who shared their experiences and predictions with participants of Novogradac & Company LLP's 13th Annual San Francisco Affordable Housing Conference last month in Burlingame, Calif.

Panel moderator David Kunhardt, director of new product initiatives and equity at Apollo Housing Capital LLC, told the audience on September 14 that he believes 2006 to be a "year of transition." Specifically, he noted that September was a transition time for yields when compared to the previous year; Kunhardt said he had seen yields go up 50 to 75 basis points in just the last two to three weeks.

Paul Weissman, director of originations and senior vice president with Column Capital, a Credit Suisse company, admitted that the panelists might suffer from "the boy who cried wolf phenomena" because similar panels have been making similar predictions for the past five years. However, he said, he expects to see LIHTC prices go down in 2007 because the interest rate environment and the efficiency level of the market won't sustain continued increase in prices. Weissman said he has seen loads and fees becoming compressed and equity payment schedules being pushed out in time.

Paul Buckland, who is responsible for equity and debt origination in Wachovia's Western region, said his company is doing a lot of "front end" review and starting talks early on to lock in pricing. Between now and year's end, he said, Wachovia is approaching production on a case-by-case basis.

Kunhardt said he thinks smart developers should have "more modest ambition" in the next six months. Jennifer Erixon, vice president at Capmark Securities Inc.,

said she doesn't expect to see much difference in the market during the third and fourth quarters of 2006, but does expect things to slow down in 2007. She also said she has noticed a lot of secondary deals on the market.

Although yields on the debt side are not fluctuating to the same extent as those on the equity side, Kunhardt said there has been a dramatic shift to higher yields on the equity side. He said one of the factors influencing the market has been large investors that have cut back, which he predicted could result in the "realignment of loyalty" in the market and could motivate investors that used to invest only through syndicators to move to direct investing or to make more secondary market purchases.

When asked by an audience member why — other than the forces of supply and demand — investors are paying such high prices for LIHTCs, panelists cited a variety of reasons. Erixon said that Community Reinvestment Act (CRA) investors make up one of the sectors from which Capmark is seeing the strongest demand, and noted that banks are motivated differently than traditional investors.

Weissman said that decreasing interest rates and increasing syndicator competition had played a part in driving up LIHTC prices but reiterated that he believes the market has finally reached a point of "disequilibrium."

Kunhardt described some pricing he'd seen as "drunkenly insane" but said those deals were motivated by specific investors who were very interested in specific deals. Buckland agreed, saying that although production goals had gone up for the past three years and investors had "wild appetites" last year, he expects goals to become more prudent in the future. "We are trying to correct on our side and limit the correction to the investors," he said.

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When asked what investors are avoiding, the panelists' responses were varied. Weissman said he preferred "clean" deals and that the more complicated the story with any investment, the more time it will take to fit into a fund and even those might be more fun, in today's interest rate environment they are harder to justify. Erixon said she had recently found moderate rehabilitation deals increasingly hard to sell. Buckland said he preferred to do 9 percent deals and a solid market, such as Los Angeles, which he described as "top tier." ❖

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ISSN 1094-8684